



Markets in a Minute

20 July 2021

Equities fall as inflation surges on both sides of Atlantic

Most major stock markets fell last week amid a higher-than-expected surge in inflation and increasing cases of Covid-19.

In the US, the S&P 500 and the Nasdaq slipped 1.0% and 1.9%, respectively, after data showed inflation jumped by 0.9% in June – almost double the figure forecast by economists. Federal Reserve chairman Jerome Powell reiterated his view that inflation pressures are temporary, which helped to moderate losses.

The pan-European STOXX 600 fell 0.6% after figures showed new Covid-19 cases in the EU and EEA had surged by 64.3% from the previous week, raising concerns about the continent's economic recovery. The European Centre for Disease Prevention and Control said 20 countries had seen an increase in new cases, although hospitalisations remain stable.

The UK's FTSE 100 also slid 1.6% as inflation fears resurfaced and rising infections outweighed optimism about 'freedom day'.

Over in Asia, China's Shanghai Composite ended the week up 0.4% after figures showed gross domestic product (GDP) rose by 7.9% in the second quarter from a year ago, while retail sales and industrial production in June surged by 12.1% and 8.3%, respectively, from a year ago.

Last week's market performance*

- FTSE 100: -1.60%
- S&P 500: -0.97%
- Dow: -0.52%
- Nasdaq: -1.87%
- Dax: -0.94%
- Hang Seng: +2.41%
- Shanghai Composite: +0.43%
- Nikkei: +0.22%

* Data from close on Friday 9 July to close of business on Friday 16 July.

Stocks slump as Delta variant spreads

Equities slumped on Monday (19 July) as the spread of the Delta variant of Covid-19 weighed on investor sentiment. The Dow recorded its worst day in three months, sliding 2.1%, while the S&P 500 and the Nasdaq lost 1.6% and 1.1%, respectively.

The FTSE 100 posted its biggest one-day fall since May and finished below the 7,000 mark. Travel and leisure stocks suffered on news that fully vaccinated arrivals from France will still need to quarantine. British Airways owner IAG slumped 5.2% and easyJet declined 6.7%. Energy stocks also struggled after OPEC+ agreed to increase supply from August, leading to a decline in crude oil prices.

UK and European stocks rebounded at the market open on Tuesday, with the FTSE 100 and the STOXX 600 both adding 1.1%. Japan's Nikkei 225 tumbled to a six-month low following Monday's selloff.

US and UK inflation soars

Figures released last week showed inflation in the US and the UK accelerated in June, leading to renewed speculation that central banks could start to rein in their support for the economy.

In the US, headline consumer prices rose by 0.9% from the previous month and by 5.4% from a year earlier, marking the fastest pace of annual growth since 2008. Core inflation (excluding food and energy) rose by 4.5% from a year ago, the highest since 1991.

The surge was largely driven by the biggest monthly bounce in used vehicle prices for more than 60 years. Prices rose by 10.5% between May and June, meaning second-hand cars were being bought for around 45% more than a year earlier. Prices of new cars also rose by 2% month-on-month – the biggest increase since 1981.

Meanwhile, UK data showed the headline consumer prices index rose to 2.5% in the 12 months to June, the fastest pace for nearly three years, as prices continued to recover from their early pandemic lows. Higher food and fuel prices

drove the increase, as did rises in the cost of eating and drinking out, clothing and footwear, and second-hand cars.

US retail sales beat expectations

Last week also brought the latest data on US retail sales, which unexpectedly rose in June by 0.6% from the previous month, according to the US Census Bureau. Economists polled by Reuters had forecast a drop in sales of 0.4%. On an annual basis, sales surged by 18.0% and are now above their pre-pandemic level.

The rebound came despite purchases of motor vehicles declining for the second month in a row amid a lack of supply caused by the global semiconductor shortage. US retail sales are measured by receipts not volume, which meant higher prices from supply constraints flattered the figures.

US retail sales - monthly % change



Source: US Census Bureau

Although consumers seem to be spending more, separate data released last week suggested they are also growing more cautious. The University of Michigan's preliminary gauge of consumer sentiment fell to its lowest level since February, largely because of worries about inflation.

"Consumers' complaints about rising prices on homes, vehicles, and household durables have reached an all-time record," said Richard Curtin, the survey's director.

Japan manufacturing index soars

Over in Japan, confidence among Japanese manufacturers rose in July to its highest level for two-and-a-half years, as global demand helped the country's export-driven economic recovery. According to the Reuters Tankan poll, sentiment was boosted by strong confidence at car, chemical and metal products manufacturers, which offset poor conditions among textiles and paper.

However, the survey also showed service sector sentiment turned pessimistic in July, falling to -3 from a flat reading in June, as Covid-19 mitigation measures continued to curb spending. Tokyo is currently under its fourth coronavirus state of emergency, which is due to last until 22 August. On Wednesday (14 July), the capital recorded its highest number of new infections in almost six months.



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